

Message Text

CONFIDENTIAL

PAGE 01 AMMAN 04350 01 OF 02 231623Z

46

ACTION NEA-10

INFO OCT-01 ISO-00 NEAE-00 AID-05 OMB-01 TRSE-00 EB-07

COME-00 SS-15 SSO-00 NSCE-00 NSC-05 SP-02 L-03 INRE-00

CIAE-00 INR-07 NSAE-00 IGA-02 /058 W

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O 231545Z AUG 76

FM AMEMBASSY AMMAN

TO SECSTATE WASHDC IMMEDIATE 8861

C O N F I D E N T I A L SECTION 1 OF 2 AMMAN 4350

E.O. 11652 GDS

TAGS: EAID JO US

SUBJECT: TQ PROJECT FINANCING

REF: (A) STATE 208590, (B) STATE 207943, (C) STATE 195937,
(D) AMMAN 4241 (E) AMMAN 4351

1. SUMMARY. AS SET FORTH IN REF WE FIRMLY BELIVE
THAT THE SPRINKLER, JORDAN VALLEY ROADS, AND JORDAN
VALLEY GOVERNMENT HOUSING PROJECTS CAN BE MOVED FROM
FY77 INTO THE TQ. OUR STRONG REASONS FOR FEELING
THAT THOSE PROJECTS ARE FEASIBLE ARE DESCRIBED BELOW.
WE ARE SO SOLIDLY CONVINCED THAT THE PROJECTS CAN BE
DONE THAT WE ARE WILLING TO SEND TOM PEARSON, USAID/J
CAPITAL DEVELOPMENT OFFICER BACK TO WASHINGTON
SEPTEMBER 6 TO WORK ON PROJECTS, AND GOJ DEPUTY
DIRECTOR OF JORDAN VALLEY COMMISSION HAS EXPRESSED
WILLINGNESS ACCOMPANY PEARSON AND SIGN LOAN PAPERS.
END SUMMARY.

2. SPRINKER EQUIPMENT PROCUREMENT

FEASIBILITY FEPORT FOR THE HISBAN KAFREIN PROJECT
DATED AUGUST 75 PREPARED BY SIR M MACDONALD AND
PARTNERS INDICATED INTERNAL RATE OF RETURN OF 30
PERCENT BASED ON DIRECT BENEFITS AND ON 1973 CAPITAL
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PAGE 02 AMMAN 04350 01 OF 02 231623Z

AND FARM GATE PRICES. FOLLOWING SENSITIVIT AANALYSIS

INCLUDED IN THE REPORT

20 PC REDUCTION IN CROP PRICES - IRR 23 PC
20 PC REDUCTION IN "WITH PROJECT" CROP
YIELDS IRR 18 PC
20 PC INCREASE IN CAPITAL COSTS IRR 26 PC
20 PC INCREASE IN ALL COSTS -- IRR 25 PC

CAPITAL COSTS ESTIMATE USED IN REPORT WAS JD 1
MILLION. SIR M MACDONALD BY REPORT DATED MARCH 18
76 REVISED THEIR ECONOMIC EVALUATION TO REFLECT
1975 CAPITAL COSTS AND FARM GATE PRICES. BASED ON
CONSTRUCTION COSTS ESTIMATE OF JD 1.72 MILLION PLUS
SPRINKER EQUIPMENT OF JD 600,000 AND WITH O AND M
COSTS OF 65,000 PER YEAR THEY REPORT AN IRR OF 20 PC
FOR 30 YEAR PROJECT LIFE (BENEFIT COSTS RATIO 17.75 TO
1 AT 10 PC INTERESTS) CONTRACT AWARDED TO
CHO SUK FOR JD 1.7 MILLION IN AUGUST 76. THUS IT
CAN BE EXPECTED THAT THE IRR MIGHT BE LESS THAN 20
PC WHEN COST OF CONSULTANTS AND CONTINGENCIES
INCLUDED BY IT CERTAINLY APPEARS THAT COST BENEFIT
RATIO WOULD EXCEED ONE. FINANCIAL ANALYSIS IN THE
FEASIBILITY REPORT INDICATES INCOME FROM 30 DONUM
FARM WOULD BE JD 995 AFTER PAYMENT OF COSTS INCLUDING
AMORTIZATION OF LOAN FOR ON FARM SPRINKER EQUIPMENT
AT 4.5 PERCENT (FOR 30 DONUM HOLDING ANNUAL PAYMENT
JD 63) AND FOR AMORTIZATION OF CAPITAL COST ON BASIS
30 YEAR LOAN AT 4.5 PC. ASSUMING ALL BENEFIT

HAVE INCREASED IN PROPORTION TO THE COSTS IT APPEARS
THAT THE PROJECT IS FINANCIALLY SOUND.

FOR THE NORTHWEAT GHOR PROJECT AREA, IDA REPORT
NO 339A-JO, DATED MAY 10, 1974 GIVES A RATE OF
RETURN OF 29 PERCENT WITHOUT SOCIAL DEVELOPMENT
COMPONENTS OF PROJECT. IDA CALCULATED ECONOMIC
BENEFITS ON BASIS OF 7,600 HECTAR PROJECT AREA
WHICH INCLUDES IMPROVEMENT OF IRRIGATING PRACTICES
OF 6,660 HECTARES OF PRESENTLY IRRIGATED LAND AND
1,040 HECTARES OF NEW IRRIGATED LAND. SPRINKLER
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PAGE 03 AMMAN 04350 01 OF 02 231623Z

IRRIGATION WILL BE USED FOR THE NEW AREA AND
ABOUT 1,720 HECTARES OF EXISTING GRAVITY FED AREA
WILL BE CONVERTED TO SPRINKERS.

IDA BASED ECONOMIC JUSTIFICATION ON ESTIMATED
INVESTMENT COSTS OF JD 3.152 MILLION. CONTRACT
AWARDED CHO SUK FOR \$13 MILLION (JD 4.3 MILLION
EXCLUSIVE OF ON FARM EQUIPMENT. LATEST COST ESTIMATE

FR ON FARM EQUIPMENT MADE BY DAR AL HANDASAH
IN JUNE 75 WAS JD 550,000. THUS THE REVUSED
PROJECT COSTS ESTIMATE CONSIDERING SAME ITESMAS AS
INCLUDED IN THE ORIGINAL IDA ECONOMIC JUSTIFICATION
AALYSIS WOULD BE ABOUT JD 7.8 MILLIO. WHILE
CROPPING PATTERS ARE NOT THE SAME IN THE NORTHEAST
GHOR AS THOSE IN HISBAN KAFREIN STUDIES. IT APPEARS
REASONBLE THAT BENEFITS WOULD INCREASE AT ABOUT
SAME RAETE AS THOSE FOR THE HISBAN KAFREIN PROJECT
WHICH REFLECTS MORE UP TODAY MARKET PRICES. EVEN
THOUGH COSTSHAVE INCREASED BY 120 PC, BENEFITS
HAVE INCRASD PROPORTIONATELY AND THEREFORE THE
BENEFIT COSTS RATIO OF THIS PROJECT WOULD BE STILL
GREATER THAN ONE. SINCE THE IDA APPRAISAL

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PAGE 01 AMMAN 04350 02 OF 02 231653Z

46

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FM AMEMBASSY AMMAN

TO SECSTATE WASHDC IMMEDIATE 8862

C O N F I D E N T I A L SECTION 2 OF 2 AMMAN 4350

INDICATES A SATISFACTORY FARMERS INCOME WOULD
RESULT FROM THE PROJECT AND THAT BENEFITS HAVE
INCRASD AS INDICATED IN DATAS REVIEWED FOR THE
HISBAN KAFREIN PROJECT, IT APPEARS THAT THIS
PROJECT IS ALSO FINANCIALLY SOUND AT THE NEW
ESTIMATED INVESTEMENT COSTS.
WE BELIEVE THE ABOVE ANALYSIS IS SUFFICIENT FOR
THE ECONOMIC AND FINANCIAL FEASIBILITY PORTIONS OF
A PP.

3. JORDAN ROADS. (A) EXTENSION OF YARMOUK DEAD SEA ROAD FOR 4

KM (ESTIMATED TO COST \$300,000) NORTHWARD TO CONNECT BOTH RECENTLY CONSTRUCTED 8 KM SECTION OF ROAD LEADING TO UM QUIS IN NECESSARY IN ORDER TO UTILIZE INVESTMENT ALREADY MADE IN THAT SECTION. THIS EXTENSION WILL PROVIDE ALL WEATHER ACCESS TO EAST GHOR CANAL INTAKE STRUCTURE AS WELL AS THE RECACTION AREA AT HAMMA (HOT) SPRINGS THE TOURIST TOWN OF UN QUIS THE MARQARIN DAM SITE AND WILL PROVIDE ANOTHER OUTLET TO THE NORTH FOR MARKETING PURPOSES.

(B) BY PASS AREOUND NORTH SHUNA (ESTIMATED COST \$480,000) IS REQUIRED TO REDCE CONGESTION BY ROUTING THROUGH TRAFFIC AROUND THE TOWN.
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PAGE 02 AMMAN 04350 02 OF 02 231653Z

(C) JVC HAS IDENTIFIED ABOUT 200 KM OF ROAD (EXTIMATED TO COST \$3 MILLION) REQUIRED FOR FARMS TO HAVE ADEQUATE ACESS TO THE YARMOUK DEAD SEA ROAD FOR TRANSPORTING AGRICULTURAL INPUTS AND PRODUCE. JVC HAS DEVELOPED A SCHEDULE OF CONSTRUCTION BASED ON PRIORITY NEED. PRESENT ACESS INADEQUATE AND WHERE DIRT TRACKS ESISS ALONG IRRIGATION LATERALS MAINTACCENACE COSTS ARE HIGH. JVC IS PREPARING DATA FOR ECONOMIC JUSTIFICATION WHICH SHOULD BE AVAILABLE IN NEXT FEW DAYS. IT IS ESSTIAL THAT AL WEATHER ACCESS TO AGRICULTURAL PROEUCTION AREAS BE PROVIDED TO PERMIT REALIZATION OF BENEFITS FROM THE INVESTEMENT MADE IN THE IRRIGATIONSYSTEMS IN THE VALLEY WE BELIEVE THAT EVEN WITHOUT VIGOROUS ECONOMIC BACK UP THE ABOVE ADEQUATELY JUSTIFIES THIS PROJECT AS A DEVELOPMENT ACTIVITY.

4. JV GOVERNMENT HOUSING: ABS INDICATED \$2 MILLION BECUSE OF OTHER CONSIDERATION WITHIN TOTAL PROGRAM LEVEL. USAID BELIEVES THAT CONTRACT COSTS FOR 300 HOUSES WILL BE IN EXCESS OF \$3 MILLION. AS NOTED IN THE ABS NO HOUSING IS PRSENTLY AVAILABLE IN THE VALLEY FOR GOVERNMENT ADMINISTRATIVE AND AG EXTENSION PERSONNEL. PRESENTLY THESE PERSONNEL ARE COMMUTING FROM THE PLAGUE BY BUS AND OTHER MEANS. BECAASE OF THII IT IS DIFFICULT TO GET QUALIIED PEROPLE TO ACCEPT ASSIGNMENTS IN THE VALLEY. AS AN EXAMPLE OF BUILDING SHORTAGE ADDITIONAL ROOMS ARE IMMEDIATELY REQUIRES AS SCHOOL ROOMS FOR THIS SCHOOL YEAR AND NONE ARE AVAILABLE. HOUSING FOR STAFF IS VITAL TO THE SUCCESS OF THE ON GOING AND PROPOSED PROJECTS. JVC ESTIMATES THAT EVENTUALLY ABOUT 500 HOUSES WILL BE REQUIRED FOR GOVERNMENT PERSONNEL. IN ORDER FOR GOJ

TO ASSIGN PEOPLE TO WORK IN THE VALLEY HOUSING MUST
FIRST EXIST. REQUEST FOR BIDS FOR CONSTRUCTION OF
THESE HOUSES AND FOR THE BUILDINGS TO BE FINANCED
FROM LOAN 278-K-013 HAVE BEEN ISSUED IN ONE PACKAGE.
BIDS ARE EXPECTED EARLY OCTOBER 1976 FINANCING
OF THE HOUSES WILL ASSIST IN ASSURING AVAILABILITY
OF SUFFICIENT FUNDS FOR CONTRACT AWARDS. CONSIDERING
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PAGE 03 AMMAN 04350 02 OF 02 231653Z

ALL PROJECTS AID IS FINANCING IN THE VALLEY AND THE
STAFFING REQUIREMENTS NECESSARY, WE BELIEVE THAT
THIS PROJECT IS JUSTIFIED AS DEVELOPMENT PROJECT AND
THAT THE ABOVE PROVIDES SUFFICIENT RATIONALE FOR
AID FINANCING.

5. IF ABOVE JUSTIFICATION FOR PROJECTS CONSIDERED
ADEQUATE WE BELIEVE IT POSSIBLE TO PREPARE SHORT
PROJECT PAPERS IN TIME FOR AUTHORIZATION BY SEPTEMBER
30,1977. WE ARE PREPARED TO SEND PEARSON TO AID/W
O/A SEPT 7 ACCOMPANIED BY JVC REPRESENTATIVE
AUTHORIZED TO SIGN AGREEMENTS TO COMPLETE PROJECT
PAPERS. (DR HADDADIN HAS VERBALLY AGREED TO
ACCOMPANY PEARSON)

6. PLEASE ADVISE IMMEDIATE.
PICKERING

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